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C O N F I D E N T I A L SECTION 01 OF 03 TOKYO 001296

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SUBJECT: NIIGATA: LOOKING TO CHANGE FROM REAR WHEEL TO  
FRONT WHEEL

Classified By: Ambassador J. Thomas Schieffer for reasons 1.4 (b,d)

¶1. (C) Summary. Niigata Prefecture' economic recovery is proceeding at a slower pace than other parts of Japan. Prefecture and city officials hope to wean the area from its dependency on the construction sector but also suggested that Niigata suffers from the lack of a powerful political patron in Tokyo. City and prefectural officials are exploring ways to attract college graduates back to the area to offset a looming labor shortage as retirees increase. Despite its many appealing features, Niigata has attracted little foreign direct investment (FDI), but officials are working to develop local technology through various subsidies. Nevertheless, Niigata suffers from the lack of a substantive method for economic revitalization. End summary.

Niigata: Rear Wheel Of A Jumbo Jet

¶2. (SBU) In a meeting with visiting Tokyo econoff, Niigata Prefecture Government Department of Industry, Labor and Tourism Industrial Policy Division Director Yutaka Tomatsu began his discussion of the prefecture's economy by lightheartedly referring to Niigata as "the rear wheel of a jumbo jet: the last to take off and the first to land." Tomatsu explained that Niigata Prefecture is full of small and medium-sized enterprises (SMEs), many of which are subsidiaries of larger companies in Tokyo. Thus, the trickle-down effect in the improving economy takes longer to reach the prefecture. He expressed a desire for a large "Toyota-like" company around which a wide range of local supporting industries could develop. Then, he joked, Niigata could become the "front wheel of the jumbo jet."

Heavy Reliance on Construction, Manufacturing...and  
Politicians

¶3. (SBU) Niigata relies more heavily on the construction sector than the nationwide average, according to Tomatsu: 13.2 percent of Niigata,s companies and 12.5 percent of its labor force are involved in construction compared to the 9.9 percent and 8.4 percent national average respectively. Projects mainly include controlling river flooding, managing sinking ground, protecting the river banks, and doing port-related work. Niigata City Commerce, Industry and Labor

Department Director Eiichi Hamada concurred that the construction industry urgently needs to be restructured.

14. (SBU) Niigata Association of Corporate Executives (Niigata Keizai Doyukai) Representative Director and Secretary General Shuichi Mizuma bemoaned Niigata

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Prefecture's reliance on public works spending and blamed the formerly powerful and influential politician Kakuei Tanaka whose legacy continues despite his passing. Mizuma also complained that the Prefecture's other Liberal Democratic Party (LDP) members lack the influence in Nagata-cho that they used to enjoy, including Tanaka's daughter Makiko, who Mizuma said has become very quiet recently.

15. (SBU) Like the construction industry, Niigata's manufacturing industry is more labor intensive than the national average, according to Tomatsu. During the economic "bubble years" of the 1980s, the manufacturing sector accounted for over 25 percent of GDP, although recently that the number has fallen to around 20 percent. Almost 12 percent of Niigata businesses and 22.8 percent of the labor force are involved in manufacturing versus a national average of 10.1 and 19.1 percent respectively. Tomatsu also said Niigata's manufacturing is very small in scale. Each company has its own technology and know-how but lacks planning and marketing and thus ends up becoming a subsidiary of a larger company. According to Tomatsu, as the parent company pushes down costs, the subsidiary is unable to increase its profits and therefore cannot fund further R&D.

Prefecture Budget Shortfall Concerns

16. (SBU) Niigata Prefecture's budget stands at about 1.3

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trillion yen (\$11 billion) but the government often runs a deficit of 40-50 billion yen (\$339-424 million), forcing it to raid its reserve fund, said Tomatsu. The government is concerned that within one to two years Japan's baby boomers will start retiring and the government will have to start paying their retirement allowances, an enormous burden on the prefecture's finances. Fortunately, he said, the economy is improving and increased tax revenue may cover the increase in expenditures.

Niigata's Doshu-sei Block Unclear

17. (SBU) Asked about the national government's plan for decentralization or "doshu-sei," Kabasawa said it is still unclear what role current prefectural governments will play within the newly created regional blocks. He also noted that Niigata Prefecture geographically falls between two of the proposed districts and that he hoped Niigata would be placed in the richer Kanto block along with Tokyo, Kanagawa and Chiba. Not knowing where the prefecture will be placed has meant the government has had to prepare for both.

Employment: U-Turns and I-Turns

18. (SBU) Traditionally, Niigata has been a poor region and many of its inhabitants leave the area to find work. In particular, the area's young people leave to attend college and never return. In order to increase the number of "U-turns" -- students returning to their hometowns after college graduation -- the prefecture is considering a system to register local students before they leave for Tokyo to study. The government would then disseminate information to the students and their parents about local employment in hopes of luring the students back to Niigata after graduation. Kabasawa also related that Niigata is offering low interest rate loans to attract "I-turns" -- graduates

from other localities.

#### FDI and Special Zones

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¶9. (SBU) Kabasawa was unable to cite a single case of foreign direct investment (FDI) in Niigata, although a number of local companies are themselves investing in southeast Asian countries. He cited one "special zone" designed to increase productivity by allowing local farmers to use agricultural land for commercial use or to allow a third party such as a private corporation to manage the land. While confessing he is no expert on the subject, Kabasawa said the zone designation brought very little change to the area. He noted that some construction companies made use of this special zone to manage agriculture land but added that there is a long-standing practice of farmers working in construction during the off-season. Niigata Prefecture has little interest in attracting foreign workers because of difficult issues such as schools for the children, according to Tomatsu.

#### Technology is Key

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¶10. (SBU) Niigata has the potential to make a meaningful technological contribution -- it receives many patents, according to Hamada -- but the level of the technology is still low and talented young people continue to seek jobs in Tokyo where the level is much higher. Hamada said that the city recognizes it must improve the level of technology in order to stop the outflow of talent. The effective ratio of job offers to applicants is higher in Niigata than the national average and has been increasing steadily over the past seven years, but the job quality is still low. The manufacturing industry employs the largest number of workers -- about 14.5 percent -- but the income level is only slightly better than in the transportation industry.

#### Traditional Niigata Company Trying to Keep Up

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¶11. (SBU) A visit to the Takahashi Shingo Furniture Co.

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highlighted some of the employment issues discussed with the prefectural and city governments. The company was established in 1919 by the grandfather of the current president and hand-makes traditional wooden chests of drawers from paulownia wood, which are used to store kimonos. The company employs 38 people ranging from those with 30 years of experience to those with none at all. Two of the workers are designated traditional craftsmen by the Ministry of Economy, Trade and Industry (METI) in an effort to keep the dying skill alive.

¶12. (SBU) President Kazutoshi Takahashi described a 16-year gap in ages among the employees created during the "bubble" years when most of the area's young people left the prefecture to take higher-paying jobs elsewhere. When outside jobs dried up during the recession, young people were forced to stay in Niigata. Some took jobs at the furniture maker but they lack the devotion to stay on because of the long years of required training; it takes at least 2-3 years to learn the necessary skills. Takahashi described how he must train the younger generation as fast as possible while paying them a full salary in order to keep them in the shop.

#### High-tech Company Wave of the Future

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¶13. (SBU) In stark contrast to Takahashi Furniture, Produce-Technology Magic Box is a high-tech company started by a 24-year old man in a garage in 1992 to make micro-condensers. Originally a subsidiary of a larger company, Produce developed the world's smallest terminal capacitor -- used in digital instruments such as cell phones,

cameras, automobiles and televisions -- at the suggestion of a client and in the process came up with a new technology for applying liquefied metal onto minute objects. With this new product and new technology Producer became a manufacturing company in its own right, boasting over 1.3 billion yen in capital and 170 employees; it was listed on JASDAQ in 2005. The head of Produce's Management Planning Office Keitaro Mori emphasized that cooperation and coordination among companies is a very important part of the business operation. The company would like to see more prefectural government support for the area's strong companies rather than for its weak ones. Mori also observed that Niigata City government is more customer-oriented than the prefectural government and he complained about the time necessary to complete an application for a government subsidy, expressing a desire for a more flexible system for SMEs.

Comment

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¶14. (C) Niigata faces a difficult challenge to fully revitalize its economy, given its past dependence on construction and manufacturing. Government officials are exploring various ways to attract new business to the area to lessen this dependence but have yet to articulate a coherent method for accomplishing this. That the Keizai Doyukai would like to see another powerful Tanaka-like politician in Tokyo to send assistance Niigata's way is unsurprising but still worrisome. A world-class company is unlikely to come to Niigata in the near future, however, which will force the local authorities to work even harder to attract and nurture companies such as Produce-Technology Magic Box.  
SCHIEFFER